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# Economic Conditions
# Governmental Finance
# United States Securities

New York, August, 1943

## General Business Conditions

THE month of July has been a memorable period for the cause of the United Nations. The unexpectedly swift overrunning of the major part of Sicily, followed by the fall of Mussolini and the apparent collapse of the Fascist regime in Italy, has climaxed a series of Allied successes any one of which would rank of large importance in influencing the course of the war. In the South Pacific, the American and Australian forces are pressing forward successfully in new offensives in the Solomon Islands and New Guinea. On the Russian front, the long-awaited German summer offensive was stopped in its tracks, and the Russians are now counter-attacking and threatening one of the key strong points of the German position in that area. These evidences of increasing power in the three main battle zones have accompanied the turn of the tide of U-boat warfare upon which the enemy has rested such great hopes, and mounting destructiveness of the air attack upon his centers of war production and systems of supply.

These are immensely encouraging developments, and taken together make unmistakable wherever the news travels the extent to which the initiative has now passed to the United Nations. How the change of government in Italy will affect that country's part in the war is still uncertain. The new Government, headed by Marshal Badoglio, has declared that the war must go on; but there are ample indications that the Italian people desire peace. There can be little doubt that the events in Italy have made a profound impression throughout both enemy and occupied countries, and particularly in the satellite countries within the Axis sphere of influence.

Meantime, the course for the United Nations is clear. Heartened as we may well be by the favorable progress of our arms we cannot afford relaxation of our utmost efforts at home and in the field to bring pressure upon the enemy. As President Roosevelt and Prime Minister Churchill have indicated, there must be no respite, but the waging of relentless war until the victory is won.

### Progress of War Production

It would be gratifying indeed to be able to record that the favorable reports from all theatres of war were being matched by unity and corresponding progress in meeting our problems at home. Unfortunately, there has continued to be far too much confusion and controversy, due in great measure to the magnitude and complexity of the job that has been undertaken. The difficulties are immense and not readily understood by most people. New plans and methods of control must be hastily improvised, too often ill adapted to the purposes and with administration in the hands of persons with little experience or qualification for exercise of such powers. In the welter of new regulations and restrictions, frictions and antagonisms are bound to arise. Personal rivalries and jealousies, conflict of ideologies, and partisan efforts to further the interests of particular groups—more often than not the result merely of ignorance or misguided attempts by such groups to get what they conceive to be only their "rights"—are all part of the story. But whatever the causes, the results are the same, namely, waste and lost effort that slow up the war program and add to its cost.

While the output of war materials has been tremendous, far surpassing anything dreamed of before, the production in recent months has failed to record the further gains that had been hoped for. During May, June, and July the over-all rate of munitions output, as indicated by the War Production Board, flattened out, while the index of total industrial production in June, computed by the Federal Reserve Board, dropped off two points—the first monthly decrease in over a year. War expenditures by the Treasury in July apparently came to around $6½ billions, compared with a peak of $7½ billions in June, and were the lowest for any month since February.

Officials of the Army and Navy Departments and war production agencies have expressed fear that the increasingly favorable war news may have caused some relaxation of effort, and have warned that production goals are being endangered. In enumerating the various causes of the lag, the chairman of the War Production Board, Mr. Donald Nelson, mentioned absenteeism, strikes, delays by management in utilizing full capacity, over-optimism, and local labor shortages. While all these have doubtless played a part, the fact is, as Mr. Nelson also pointed out, that war production has now reached a stage where additional increases are hard to get. One explanation is that it is no longer a question of needs increasing uniformly. What is now happening is a readjustment of schedules, with the requirements still rising in some directions while the program is being cut back in others through cancellation of orders and requests for slowdown of deliveries. Naturally, this affects the over-all totals. The problem is to obtain sufficient flexibility so that war work can be pressed with all speed on the materials still wanted, or wanted in larger amounts or new designs as methods of warfare change.

#### Civilian Goods Trade Large

In the civilian goods area of the economy the results for the half-year just closed demonstrate that the volume of business has held up far better than was generally thought possible a year ago. Notwithstanding the shortage of durable goods, total retail sales of the country were reported by the Department of Commerce at 12 per cent in excess of last year, with sales of apparel the largest on record for any similar period. Part of this increase reflects higher prices, but even allowing for this the turnover in volume has been very large.

In part, the maintenance of high retail distribution has been due to sale of goods out of inventories which had been built up to high levels in anticipation of shortages. On the other hand, the volume of deliveries to merchants has, in the aggregate, likewise been larger than expected. The fact is that the resourcefulness and capacity of American industry for production has been underestimated. Through ingenuity in the utilization of available labor supply and materials, and in the devising of substitutes, manufacturers have been able to supply a great quantity of merchandise which has helped to maintain the business organization through a difficult period, supply consumer needs, and reduce somewhat the dangerous "inflationary gap" between the swelling consumer incomes and the quantity of goods available.

For the last half of the year, total civilian business is expected to fall at least 20 per cent below the corresponding period of last year, according to Mr. Arthur D. Whiteside, vice chairman of the War Production Board in charge of civilian requirements. By this time the ability to supply merchandise out of inventory, especially in the case of non-replaceable durable goods, will have been further reduced, while the increasing manpower pinch will be affecting many lines of manufacture. On the other hand, the improvement in shipping conditions, which is discussed in a following article, has eased the situation materially in some directions through increased supplies being imported.

An example of the larger commodity stocks now available is that of coffee, which has permitted the removal of rationing, and sugar, where a relaxation of the allowable rations has been promised. In textiles, the peak of Army ordering apparently has passed (although mills are still busy with war work), while the larger imports of burlap in the fourth quarter are expected to release to other uses substantial textile capacity now allocated to the manufacture of cotton bagging.

In a recent study of the reconversion problem the War Production Board suggested tentatively that within the next twelve months a portion of industry now engaged in producing munitions probably will be turning back to goods specialized in before the war. It was stated, however, that this conversion would probably come first in the capital goods industries, and that the extent to which this would relieve domestic shortages would depend partly upon the requirements for reconstruction in devastated countries.

#### Labor and Price Problems

Pressure upon the "hold-the-line" policy on wages and prices has been steadily increasing. The announcement by Mr. John L. Lewis of an agreement between the Illinois Coal Operators Association and the United Mine Workers providing for an average $1.25 per day portal-to-portal pay allowance, and an additional $1.50 a day through overtime from a lengthened work-day, which was submitted to the War Labor Board for approval, has touched off a rapid succession of events threatening the Government's whole wage and price stabilization program. The leaders of the Congress of Industrial Organizations and of the American Federation of Labor repeated earlier demands that the Administration "roll back" the cost of living to the level of September 15, 1942 or abandon the "Little Steel" formula. Strikes in scattered areas increased, in defiance of the anti-strike law requiring 30 days' notice of intention to strike. The War Labor Board, however, has reiterated that the "hold-the-line" policy must stand.

Following this, President Roosevelt announced that a new program for controlling

the cost of living is being prepared for presentation to Congress, which will reconvene in September. The program includes: (1) steps to reduce prices for bread, pork, canned goods, and other commodities; (2) payment of possible wage increases in scrip or bonds not to be cashed until after the war; (3) an industrial feeding program to reduce, in effect, the cost of living for many war workers; (4) a variant of the food-stamp plan for lower income groups; (5) a $350-400 millions food production program, mostly for increasing the output of dairy products.

The program would take time to put into operation, would require large sums of money, and would call for approval by Congress, which has shown itself hostile to the general principle of subsidy payments. Moreover, it is plain that such a program does not reach the real cause of the upward pressure upon wages and prices, which is the unprecedented purchasing power in the hands of the public. As the President stated in his revised budget summary of July 31, "the cost of living cannot be stabilized unless price and wage controls are supported by a further substantial absorption of purchasing power as a deterrent to bidding up prices and resorting to the black market." And this, as the President said, means additional taxes, savings, or both.

### The Farm Outlook

Crop prospects have shown steady improvement over the past two months, and present indications are for a good harvest, though one somewhat short of 1943 goals and about 10 per cent smaller than the record harvest of 1942. Yields of flaxseed, peanuts, dry beans, dry peas, and potatoes look to be larger than last year's record crops, and near record crops are expected of soybeans, hay, barley, and grain sorghums.

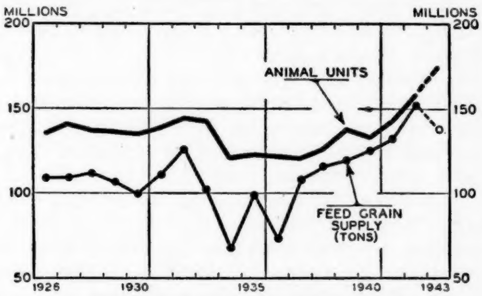
Corn—the basic feed crop—was forecast in the government's July crop report at 2,706,522,000 bushels, some 470,000,000 bushels less than the 1942 crop. Ordinarily this would be considered a large crop, but with the present record number of animals on the farms it falls far short of requirements. With production prospects for the four major feed grains (corn, oats, barley, and grain sorghums) some 14 per cent smaller than last year, and livestock numbers some 10 per cent larger than a year ago and still increasing, the country appears headed for a feed crisis that present reserve stocks and probable imports will be insufficient to avert. Already the shortage of corn is causing serious feeding difficulties in the East, and dairy farmers and poultry raisers are apparently facing the necessity of reducing the size of their herds or flocks during the coming winter. While such liquidation would temporarily increase the supply of meat, it would have the longer-term unfavorable effect of reducing the supply of milk and eggs.

The accompanying table and chart indicate the extent to which animal numbers have been built up in this country during recent years as a result of the Government's policy of keeping feed prices low in relation to livestock prices. By January 1, 1943, or earlier, new high levels had been reached in all categories except horses and mules where the long-term downward trend associated with the mechanization of agriculture has continued. With the further expansion already under way this year as the result of 1942 record feed crops and relatively low feed price ceilings, a further substantial gain in hogs, cattle, and poultry numbers has been taking place this year.

**Number of Animals on Farms**
(Millions of Head)

| Jan. 1 | Milk Cows | Other Cattle | Total Cattle | Hogs | Sheep and Lambs | Horses and Mules | Chickens |
|---|---|---|---|---|---|---|---|
| 1926-38 High | 26.9 | 47.5 | 74.4 | 62.1 | 53.9 | 22.0 | 475.0 |
| 1939 | 24.6 | 41.4 | 66.0 | 50.0 | 51.6 | 14.8 | 418.6 |
| 1940 | 24.9 | 43.3 | 68.2 | 61.1 | 52.4 | 14.5 | 438.3 |
| 1941 | 25.5 | 46.0 | 71.5 | 54.3 | 54.3 | 14.1 | 422.9 |
| 1942 | 26.4 | 48.8 | 75.2 | 60.4 | 56.7 | 13.7 | 474.9 |
| 1943 | 27.0 | 51.2 | 78.2 | 73.7 | 55.1 | 13.4 | 540.1 |
| 1944 | | | *82.5 | *85.0 | | | †605.0 |

*Dept. of Agriculture estimate. †Assuming that the 12% increase over a year ago shown on May 1 will be maintained over the balance of 1943.




**Feed Grain Supply and Animal Units**
**(Number adjusted for feeding capacity)**
Latest figures for animal units Jan. 1, 1944; feed supply, crop year beginning Oct 1, 1943

The chart, comparing feed grain supply with animal units (numbers adjusted for feeding capacity) reflects the close association usually existing between animal numbers and the feed grain supply. With the decline in feed supplies now indicated for next season, grain prices would ordinarily be rising relative to livestock prices, making feeding less profitable and bringing about a gradual and orderly adjustment of livestock supply to the new feed conditions. With the present ceiling on corn, however, the tendency is to delay necessary adjustments until feeders actually start scraping the bottoms of their bins. Such delay increases the danger of disorderly liquidation

when the pinch comes, as occurred in 1934 when feed supplies were suddenly reduced by the drought.

In recognition of the increasing demands upon the country's food producing resources, the program for 1944 crops, announced by the War Food Administration, calls for the largest acreage on record. While full details are not expected to be released until the program has been submitted to Congress, the tentative over-all goal is 380,000,000 acres, compared with 364,000,000 acres planted to 1943 crops, and the previous record of 377,000,000 acres in 1932. Most of the increase is scheduled for wheat, with increases probable in corn, alfalfa hay, soybeans, peanuts, dry beans, dry peas, and possibly other crops.

To help farmers in reaching these goals, 1944 farm machinery production quotas have been raised to 80 per cent of the 1940 level, compared with 23 per cent originally set for the 1943 program, and larger supplies of fertilizer have also been assured.

## The Third War Loan

In fixing the goal of the Third War Loan campaign, to commence September 9, at $15 billions to be raised entirely outside the commercial banks, the Treasury is undertaking the biggest financing job of the war to date. Although the amount called for is less than the total of $18½ billions actually raised from all sources (including commercial banks) in the Second War Loan in April, it is well in excess of the over-all goal of $13 billions of banking and non-banking subscriptions set for that drive, and compares with $9 billions asked for and $13 billions raised in the First War Loan last December.

Moreover, the fact that the money this time is to be raised entirely from non-commercial banking sources increases the magnitude of the task. In both the April and December drives, the grand totals were swelled by commercial bank subscriptions amounting to $5 billions in each case. Thus the $15 billions to be sought this September is comparable not with the over-all results of previous drives, but with the $13½ billions received from non-commercial banking sources in April, and the $8 billions in December.

Once more the Treasury is endeavoring to meet the needs of the varying types of investors by offering a variety of different issues, as proved so successful in previous campaigns. These will include Series E, F, and G savings bonds, Series C tax notes, 2½ per cent bonds of 1964-69, 2 per cent bonds of 1951-53, and ⅞ per cent 11½ months certificates of indebtedness. While none of these securities will be available to commercial banks for their own account during the drive, a 2 per cent bond and a ⅞ per cent certificate will be offered to banks shortly after the drive is over. In order to confine sales in the drive to non-banking sources, the Treasury is requesting commercial banks not to buy in the market, and the market not to trade in, either the new 2s or certificates until the books on the bank offering are closed. The long-term 2½s, as was the case in April and December, will not be available for commercial bank purchase until after ten years.

### Reaching Current Income and Idle Cash

The decision to limit the Third War Loan drive to investors other than commercial banks, and to handle the bank subscriptions after the main drive is over, places the emphasis where it belongs—namely, upon obtaining as large a portion of the funds as possible from current income and idle cash rather than from the expansion of bank credit. This change will enable the national sales organization to devote its full attention to reaching this large and widely scattered portion of the market. Furthermore, at a time when the situation calls for the broadest possible support from the individual investors of all classes as well as the large investing institutions, the spectacle of commercial bank subscriptions running in the aggregate to several billions of dollars involves the danger of making other investors—particularly the "little fellows"—feel that their contributions are of only minor importance.

There is need not only for increasing the proportion of securities taken outside the banks, but also for raising the percentage subscribed by individuals, since it is purchasing power in the hands of individuals that constitutes the principal threat of inflation. As indicated in the table below, only $1.6 billions, or one-fifth of the $7.8 billions total of non-commercial bank purchases of the December loan, were by individuals (including partnerships and personal trusts), while in April the amount was $3.3 billions or one-fourth of the

**Distribution of First and Second War Loans, By Types of Investors**
(In Millions of Dollars)

| | First War Loan Dec., 1942 | Second War Loan Apr., 1943 |
|---|---|---|
| Banking sources | 5,087 | 5,058 |
| Non-banking sources: | | |
| Individuals, partnerships and personal trust accts. | 1,593 | 3,290 |
| Insurance companies | 1,699 | 2,408 |
| Savings banks | 620 | 1,195 |
| Other corporations | 2,654 | 5,038 |
| Dealers and brokers | 769 | 544 |
| Eleemosynary institutions | 57 | 117 |
| U.S. Govt. agencies and trust funds | 270 | 391 |
| State and local governments* | 200 | 503 |
| Total non-banking sources | 7,860 | 13,485 |
| Total from all sources | 12,947 | 18,543 |

*Includes their agencies, trust, sinking, and investment funds.

total of $13½ billions. The bulk of the non-commercial bank subscriptions to both loans came from the insurance companies, savings banks, and business corporations which, while reducing the dependence upon bank credit, does not have the same anti-inflationary effect as reaching current funds of individuals that might otherwise be spent.

In considering these figures, allowance must of course be made for the substantial volume of investments being constantly made by millions of persons in savings bonds, sales of which over the past year have averaged about $1 billion per month. Even so there is ample evidence in the pressure upon price ceilings and the difficulties with black markets of the need for still greater efforts during the coming bond drive to reach money in the hands of individuals, and thus attack the inflationary forces at their source.

It will be noted also that the goal of $15 billions exclusive of commercial bank subscriptions established for the next drive will require an increase of $1½ billion over the total of such subscriptions received in the April drive. While this may not appear hard to achieve, there is question whether some of the large institutional and corporate investors will be able to increase their subscriptions, or even to buy as heavily as in the April drive. It is known, for example, that purchases by insurance companies and savings banks during the first two campaigns were in excess of their normal accumulation of funds, and were made possible only by the drawing down of their deposits and the liquidation of other securities. While savings deposits are showing substantial increases, there has so far been little evidence of insurance company and savings bank switching of other securities into cash in anticipation of the third drive. All this emphasizes the need for redoubled efforts to increase the sale of bonds to individuals in order to assure the success of the drive.

Although the campaign is not scheduled to begin officially until September 9, advance preparations are already well under way for an intensive drive to cover not only the institutional and corporate market, but to reach more people and to get those already buying to step up the amount of their purchases wherever possible. Direction of the sales campaign will be in the hands of the new War Finance Committee organization, announced by Secretary Morgenthau in May, establishing a single sales force in each of the 48 states in place of the previously existing War Savings Staffs and the Victory Fund Committees in the twelve Federal Reserve districts, but including a majority of the workers in both organizations. The new set-up will have the advantage of unifying all activities under one head in each state, an arrangement which fits somewhat more readily into the pattern of business and community relationships — the chambers of commerce, banking associations, labor organizations, etc. — which are also established on a state basis. There are some offsetting disadvantages in getting new organizations into smooth working order in the summer months, and in utilizing less fully the Federal Reserve personnel and mechanism.

To achieve its goal of reaching more individuals for larger amounts the new War Finance Committees will need the help of a largely increased volunteer army of bond salesmen. In New York State the general plan of solicitation of bank and security house customers by bank-dealer teams, which was so successful in the first and second war loans will again be followed. Also subscriptions for extra bonds will again be sought in connection with payroll savings plans. A community sales division will make more widespread appeal to reach large numbers of people.

**Treasury Requirements—July Through December**

According to a statement last month by Secretary Morgenthau, the Treasury will need to borrow in the six months July through December a total of $33 billions. This includes, in addition to the $15 billion War Loan, the special banking offering of 2 per cent bonds and ⅞ per cent certificates to follow the War Loan drive, the continued sales of savings bonds and tax notes, and the present Treasury bill program. It also includes $900 millions of new money obtained in connection with the refunding of $1.6 billion of certificates maturing August 1.

Whether an additional drive may be needed before the end of the year, the Secretary said, would depend on the extent to which the $15 billion September drive is oversubscribed, as well as the rate of war expenditures.

The following table shows the revised estimates of receipts, expenditures and borrowings of the Treasury for the current fiscal year, given out by President Roosevelt on July 31, together with similar comparisons since the start of the war and defense programs.

**United States Government Receipts, Expenditures and Debt**
(In Billions of Dollars)

| Year Ended June 30 | Total Expenditures | Total Net Receipts | Total Borrowings | Debt at End of Period |
|---|---|---|---|---|
| 1940 | $ 9.0 | $ 5.4 | $ 2.5 | $ 43.0 |
| 1941 | 12.7 | 7.6 | 6.0 | 49.0 |
| 1942 | 32.4 | 12.8 | 23.4 | 72.4 |
| 1943 | 78.2 | 22.1 | 64.3 | 136.7 |
| 1944 | 104.0 | 38.1 | 69.3 | 206.0 |

Expenditures exclude sinking fund for debt retirement, net outlays of government agencies, and net appropriations to old-age insurance trust funds. Receipts exclude the corresponding old-age insurance tax receipts, also the post-war credits for excess profits tax and victory tax.

The revised estimates for 1944 were little changed from the January estimates in total expenditures, but total net receipts were revised upward by $5 billions, due primarily to the larger current collections from individuals under the new pay-as-you-earn and withholding tax provisions.

## The Half Year's Earnings

Statements for the first half year issued to date by 340 industrial companies show a combined net income after tax and other reserves of approximately $617 millions, an increase of 14 per cent over the combined earnings of the same companies in the first half of 1942, but a decrease of 22 per cent compared with the first half of 1941. Current earnings as given in the interim reports are subject to adjustment as a result of renegotiation, change or cancellation of government contracts, and subject also to year-end adjustments of tax and other reserves. The companies included in the survey had an aggregate capital and surplus of $14,735 millions at the beginning of this year, and are representative principally of the larger manufacturing organizations.

The increase in earnings of the group over a year ago accompanied a continued growth in volume of business by many companies, and a recovery by others whose volume was curtailed during the change-over to war work still in progress a year ago. Sales figures reported by 104 manufacturing companies totaled $7,961 millions in the first half year and were 38 per cent higher than last year. Sales increased considerably more than did net income after taxes, indicating lower margins of average net earnings per dollar of sales. Profit margins were narrowed despite the lowering of costs through improved efficiency and greater mass production of war goods, to which most of the large corporations are now devoted in part or entirely.

Separate earnings figures by quarters available for 281 companies show net income after taxes in the second quarter of $268 millions, compared with $257 millions in the preceding quarter and $232 millions in the second quarter of 1942.

Tax details given by 201 of the manufacturing companies show that net earnings before taxes increased in the first half year from $1,317 millions to $1,478 millions, or 12 per cent, while reserves for federal income and excess profits taxes rose from $932 millions to $1,036 millions, or 11 per cent. Such taxes took about 70 per cent of the net earnings in both years.

There were numerous instances, however, where the advance in labor and other costs was so large as to leave lower net earnings before taxes, and thus reduce the taxes payable to the Treasury, as well as the balance of net income available for corporate purposes and payment of dividends to shareholders. Out of 340 companies, 130 showed a decline in net income after taxes this year.

Our accompanying summary shows, by major industrial groups, the comparative net income after taxes for the first half year 1942 and 1943, together with net worth and annual rate of return. As pointed out heretofore, the

**NET INCOME OF LEADING CORPORATIONS FOR THE HALF YEAR**

**Net Income is Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends—Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.**

(In Thousands of Dollars)

| No. | Industrial Groups | Net Income Half Year 1942 | Net Income Half Year 1943 | Per Cent Change | Net Worth January 1 1942 | Net Worth January 1 1943 | Annual Rate of Return % 1942 | Annual Rate of Return % 1943 |
|---|---|---|---|---|---|---|---|---|
| 7 | Baking | $ 8,308 | $ 9,955 | + 19.8 | $ 227,546 | $ 219,468 | 7.3 | 9.1 |
| 19 | Food products—other | 26,486 | 30,349 | + 14.6 | 489,776 | 505,162 | 10.8 | 12.0 |
| 17 | Textiles and apparel | 6,606 | 8,216 | + 24.4 | 173,476 | 175,277 | 7.6 | 9.4 |
| 18 | Paper products | 9,864 | 7,751 | — 21.4 | 242,167 | 248,070 | 8.1 | 6.2 |
| 29 | Chemicals, drugs, etc. | 66,790 | 73,748 | + 10.4 | 1,392,494 | 1,439,705 | 9.6 | 10.6 |
| 15 | Petroleum products | 102,035 | 122,477 | + 20.0 | 3,515,192 | 3,569,455 | 5.8 | 6.9 |
| 9 | Stone, clay and glass | 4,337 | 7,362 | + 69.7 | 219,790 | 224,556 | 3.9 | 6.6 |
| 27 | Iron and steel | 98,320 | 87,465 | — 11.0 | 3,274,129 | 3,339,541 | 6.0 | 5.2 |
| 12 | Electrical equipment | 34,409 | 41,271 | + 19.9 | 692,419 | 716,118 | 9.9 | 11.5 |
| 24 | Machinery | 15,368 | 18,165 | + 18.2 | 234,184 | 250,036 | 13.1 | 14.5 |
| 22 | Autos and equipment | 61,865 | 84,907 | + 37.2 | 1,328,955 | 1,425,922 | 9.3 | 11.9 |
| 10 | Railway equipment | 10,550 | 13,137 | + 24.5 | 240,005 | 247,283 | 8.8 | 10.6 |
| 40 | Metal products—other | 30,887 | 31,321 | + 1.4 | 631,100 | 662,827 | 9.8 | 9.5 |
| 35 | Misc. manufacturing | 25,168 | 36,968 | + 46.9 | 592,249 | 616,965 | 8.5 | 12.0 |
| 284 | Total manufacturing | 500,993 | 573,092 | + 14.4 | 13,253,482 | 13,640,385 | 7.6 | 8.4 |
| 31 | Mining and quarrying | 25,567* | 25,085* | — 1.9 | 549,259 | 560,637 | 9.3 | 8.9 |
| 15 | Trade (whol. and retail) | 8,127 | 7,622 | — 6.2 | 281,324 | 285,831 | 5.8 | 5.3 |
| 10 | Service and construction | 7,780 | 11,136 | + 43.1 | 250,841 | 248,048 | 6.2 | 9.0 |
| 340 | Total | $542,467 | $616,935 | + 13.7 | $14,334,906 | $14,734,901 | 7.6 | 8.4 |

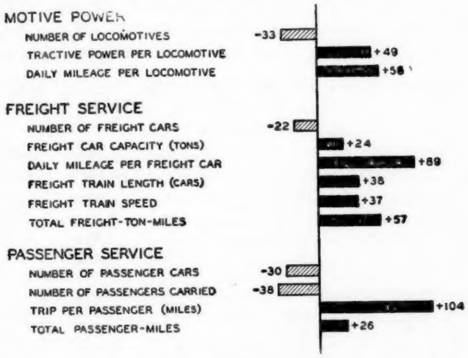
*Before certain charges.

promptly published reports of a limited number of leading corporations are useful for indicating earnings trends, but do not provide an accurate measure of average earnings for business as a whole.

### Railroad Traffic and Earnings

Freight and passenger traffic is continuing to climb, and the railroads are surpassing even their high performance records established last year. Compared with the war year 1918, the railroads last year, with much smaller numbers of locomotives and cars, but with more powerful locomotives, higher train speeds and more continuous use of rolling stock, handled 57 per cent more freight-ton-mileage, and 26 per cent more passenger-miles. The vastly greater demands made upon the roads and the efficiency with which they have been met are illustrated by the accompanying chart comparing operating statistics in the two war years 1918 and 1942.

**American Railroad Service in Two Wars**
(Percentage changes, 1918 to 1942)




On top of last year's record-breaking traffic, there was in the first six months of 1943 an increase of 22 per cent over last year in the ton-miles of revenue freight, while the passenger-miles practically doubled. Movement of troops alone is more than four times as large as in the last war.

Total operating revenues of the class 1 railroads for the first six months are estimated at around $4,300 millions, up 32 per cent from last year, and net railway operating income at $715 millions, up 28 per cent. Net income after taxes and interest charges may amount to $450 millions, compared with $290 millions last year. This increase in earnings has been due in part to the deferring of normal maintenance expenditures, owing to the inability of the railroads to obtain the necessary labor and materials.

As the year advances, the margin of increase in earnings over a year ago seems almost certain to diminish, with traffic last fall having reached practically the maximum capacity. Monthly figures for January through June show a marked narrowing of the 1942-43 spread in revenues, net operating income, and net income after charges. In the June statements issued to date, the number of railroads showing decreases in net income compared with June of last year is as large as the number showing increases.

Revenues, moreover, will be cut substantially by the Interstate Commerce Commission cancellation of the emergency increases in freight and passenger rates, effective May 15, while operating expenses may be raised considerably by the increases in railroad wages which already have been granted or are now pending.

Still other major uncertainties in the outlook for rail earnings are the much deeper cut of excess profits taxes this year, due to the exhaustion of credits carried over from previous years; and the extent (if any) to which the railroads may be permitted to set up reserves for deferred maintenance, post-war conversion, and contingencies.

### Utility Earnings Well Maintained

Reports by a group of 25 leading public utility systems supplying electric, gas and other services show that gross revenues during the first half year continued their long-term upward trend. This permitted most companies to absorb the advance in operating costs and to show moderate gains in net income. Following is a summary of the results by quarters:

**Gross and Net Earnings of 25 Leading Public Utility Systems for the Half Year**
(In Thousands of Dollars)

| | 1942 | 1943 | % Change |
|---|---|---|---|
| **Operating revenues** | | | |
| First quarter | $288,151 | $302,907 | + 5 |
| Second quarter | 262,745 | 284,684 | + 8 |
| Half year | $550,896 | $587,591 | + 7 |
| **Net income after taxes** | | | |
| First quarter | 40,935 | 41,078 | ........ |
| Second quarter | 28,331 | 32,361 | +14 |
| Half year | $ 69,266 | $ 73,439 | + 6 |

This year the percentage changes in net income tend somewhat to under-state the gain in the first quarter, and to over-state that in the second, due to the fact that last year the second quarter results in many cases were burdened with additional tax accruals applicable to the first quarter, as required by the Revenue Act of 1942 which was retroactive to the first of the year. Likewise, the net income reported thus far this year, based on 1942 tax rates, is subject to any increase in rates that would require accelerated tax accruals later on.

The most favorable utility results this year have been experienced, as would be expected, by those systems serving important war production areas and military camps. In other sec-

tions, where there has been little or no growth in revenues, the advancing costs have in many cases caused a decline in net income.

**Corporate Earnings, Dividends, and Reserves**

Despite the increases reported for the first half year by a majority of the leading industrial, railroad and utility companies in their sales or operating revenues, and also in net income, there has been little change in the level of dividend payments. According to a Department of Commerce compilation, the total of dividend payments in the first half year was 1 per cent below 1942, and 24 per cent below 1941. A survey by the New York Stock Exchange of dividend declarations by listed companies during the half year showed that dividend distributions were increased by 111 companies, and reduced or omitted by 141, while 361 paid the same amounts as in the first half of 1942.

The recovery in earnings which has taken place this year is already being made an argument for increased taxes upon business. The increased earnings in the early part of the year have been projected in certain semi-official studies and used as a basis for estimates that the earnings of all corporations for the full year 1943 may be from 12 to 16 per cent higher than last year, after tax reserves at existing rates.

Estimates of the full year's earnings made at this time, however, are subject to many qualifications, as already indicated in the discussion of railroad earnings. Industrial operating costs are still advancing, and the question of future wage rates is a subject of violent controversy. The effects of contract renegotiation need to be considered, and many concerns are now experiencing cancellations of orders or requests for slow-down of deliveries.

Moreover, it is important to note that estimates using the Treasury Department "Statistics of Income" definition of "net income" may in many cases show a considerably higher figure than that used by the companies in the preparation of their own published statements. This is because the official statistics show the taxable net income before the deduction of various "reserves," which a growing number of companies have been setting aside out of earnings to provide for contingencies, post-war conversion and other special purposes, on the grounds that such reserves are not legally deductible for tax purposes.

Regardless of the fact that business losses may not be deducted from income for tax purposes until such time as they have been definitely "established," conservative business managers and accountants have long followed the practice of setting up reserves against future losses that may reasonably be expected, even though the extent of such losses cannot be estimated accurately in advance. The proper size for such reserves is dependent upon many considerations, and often must rest upon individual judgment. Experience has shown, however, the need for contingency or unallocated reserves. Taking business as a whole, actual losses over a period of time have far exceeded the reserves, making necessary special charges against surplus or capital. The heaviest losses of course tend to come in the aftermath of business booms, and particularly the booms that accompany war, when the cancellation of contracts, liquidation of inventories and scrapping of war facilities may sweep away values almost overnight.

Executives and directors of corporations which have greatly expanded as a result of the war are concerned over the situation that will prevail when the war ends and their organizations must be converted back to a peacetime basis. The magnitude of the expansion that has occurred in several major branches of the manufacturing industries between the pre-war year 1939 and the year 1942 may be seen from the accompanying table showing the sales of a group of large war materials manufacturers.

**Manufacturers of War Materials Having Sales of Over $50 Millions in 1942**
(In Millions of Dollars)

| No. | Industry | Sales 1939 | Sales 1942 | Per Cent Change |
|---|---|---|---|---|
| 10 | Textile products | $ 384 | $ 818 | +113 |
| 4 | Rubber products | 691 | 1,334 | + 93 |
| 11 | Chem'ls and explosives | 1,024 | 1,979 | + 93 |
| 13 | Iron and steel | 2,342 | 5,482 | +134 |
| 9 | Nonferrous metals | 778 | 1,437 | + 85 |
| 11 | Automobiles* | 2,295 | 4,043 | + 76 |
| 10 | Auto equipment* | 287 | 871 | +203 |
| 14 | Aircraft and parts | 282 | 4,591 | +1,528 |
| 8 | Electrical equipment | 922 | 2,647 | +187 |
| 8 | Railway equipment* | 246 | 1,312 | +433 |
| 30 | Machy., other equip. | 1,473 | 3,271 | +122 |
| 5 | Shipbuilding† | 73 | 524 | +618 |
| 7 | Other manufacturing | 558 | 919 | + 65 |
| 140 | Total | $11,355 | $29,228 | +157 |

*Largely converted to manufacture of war materials.
†Available figures do not include several large shipbuilders which are subsidiaries of steel and other companies and publish no separate statements.

For this group alone, the total sales increased from approximately $11 billions in 1939 to $29 billions in 1942, or by 157 per cent. In some of the sub-groups the increases were still sharper, and for many individual companies the expansion ranged from five-fold to twenty-fold or more, with further increases in 1943.

Under these conditions, the need of setting up adequate reserves would seem self-evident. A question of growing public interest is why such reserves, to be set up under conditions prescribed by law and by Bureau of Internal Revenue regulations, should not be recognized as allowable deductions for tax purposes also.

## Improvement in Shipping and Imports

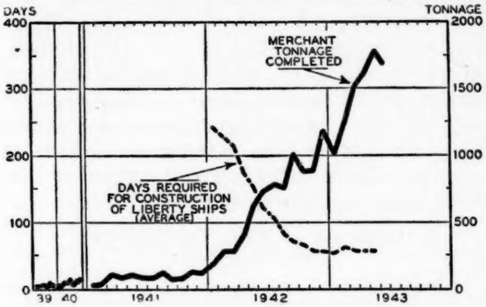
Improvement in the shipping situation, so striking that an anonymous official has been quoted as saying that "the task of finding cargo for available ships is more difficult than finding ships themselves", has become the subject of wide comment in recent weeks. So optimistic is some of this comment that Mr. Lewis W. Douglas, Deputy War Shipping Administrator, has felt impelled to say a word of caution. He recently stated that "while it is true that certain types of critical materials for export are difficult to obtain at present, I cannot emphasize too strongly the accepted fact that there will never be enough ships to meet all requirements and contingencies in this unlimited and unpredictable war".

Mr. Douglas gives weight to the fact that shipping requirements will continue to expand as military operations are extended. To supply an army unit in this war, the tonnage of materials required is said to be at least five times as large as it was during the First World War. The merchant ship tonnage available to the Allies shows no such increase, and the need of husbanding every ton of cargo space is by no means over.

Nevertheless the improvement in shipping is of the greatest significance. Sizeable net gains in the effective cargo-carrying capacity of Allied shipping have been reported for every month since last March. The flow of weapons and goods has been stepped up substantially, partly, of course, because they are no longer disappearing into the sea at the former rate. More escort vessels, better aerial protection, and new submarine-detection methods all have contributed to an extraordinary reduction in sinkings by submarines. According to the official announcement of Anglo-American naval authorities, ship losses in June were the smallest since Pearl Harbor, and the second smallest since the outbreak of the war in September 1939. They must have been but a small fraction of the losses in 1942, which had been unofficially estimated at perhaps one million deadweight tons monthly.

Output of merchant tonnage in the United States during May and June reached an annual rate exceeding 20 million deadweight tons. Altogether, 879 ships of 8,819,000 d.w. tons were delivered during the first six months, as against 747 vessels of 8,090,000 d.w. tons turned out in all of last year. With shipyards in Great Britain, Canada, India, and Australia also producing at an accelerated rate, the United Nations are probably building at present nearly 2,000,000 d.w. tons every month. At the same time, reopening of the Mediterranean has shortened the average haul and made possible more trips by the ships available.

The mass production of ships has been accomplished through standardization of design and through adoption of new methods of construction, which include prefabrication and welding instead of riveting. These new methods have permitted, as will be seen from the accompanying diagram, the reduction of time required for the delivery of a Liberty ship from the average of about 242 days at the time of Pearl Harbor to about 56 days in May 1943.




**U. S. Monthly Tonnage (in Thousands) Delivered, and the Average Number of Days Required for the Delivery of a Liberty Ship.**

### Increased Commodity Movements

The more comfortable shipping situation not only provides stronger support for our overseas forces and our Allies, but also makes possible a better distribution of the enormous output of raw materials, foodstuffs, and equipment available to the United Nations. The productive capacity of Latin America and Africa has increased more than is perhaps generally realized, yet because of shortage of cargo space it has not been possible to make full use of it. Now there is hope that a greater flow of commodities from these areas can be maintained, to the benefit of the war effort. Increases in supplies of staple commodities also ease the situation in other directions, since they reduce the demand for substitutes.

Although the publicly available statistics provide only an incomplete picture, the most striking change in commodity movements is in U. S. imports from the countries bordering the Atlantic and the Caribbean. When, following the period of serious ship losses during the first half of 1942, transport had to be limited to essentials, stocks of raw materials and foodstuffs began to pile up even in such nearby localities as Cuba, while in this country they approached dangerously low levels. At the same time, serious shortages of cereals and other imported foods developed in Puerto Rico and other Caribbean areas. Fertilizer shipments for sugar crops had to be curtailed, and the crop outlook deteriorated.

This situation is now being reversed, as shown by the following table. In the case of sugar, increased shipping facilities have so changed the supply outlook that increased sugar allotments in the near future are now predicted. Early this year studies of the sugar situa-

tion indicated danger that supplies allocated for U. S. consumption, even at the low rate of rationing, would disappear before the new domestic crop became available. New restrictions on consumption were talked of. Fortunately, the improvement in shipping permitted allocation of additional tonnage for sugar in time to avert the threatened new restrictions. Increased imports of offshore sugars are offsetting the expected decline in the mainland output of beet sugars, and danger of further restrictions has been removed. During the first half year sugar exports from Cuba were nearly 40 per cent higher than in the same period last year; the huge carry-over of sugar on the island is being steadily drawn down.

**Movement of Basic Commodities**
(000 omitted)

| Commodity | 1942 1st quar. | 1942 2nd quar. | 1943 1st quar. | 1943 2nd quar. |
|---|---|---|---|---|
| **Coffee** (bags) | | | | |
| Imports into U.S..... | 4,212 | 3,457 | 3,660 | 4,852 |
| **Sugar** (short tons) | | | | |
| Imports into U.S..... | 552 | 793 | 780 | 951 |
| Exports from Cuba | 516 | 599 | 719 | 808 |
| **Cocoa** (bags) | | | | |
| Imports into U.S..... | 449 | 351 | 829 | 1,180 |

The movement of coffee out of Brazil has been speeded up, and since the Central American coffee crops have been shipped at almost a normal rate, coffee stocks in this country have piled up, making possible complete abandonment of rationing.

With the improvement in shipping, the trade anticipates that more tonnage will be made available in the Caribbean area for the importation of bananas. For more than a year the bulk of banana crops has been going to waste and this has led to participation by this country in financing emergency projects for alleviation of the economic plight of some of the banana-producing regions. The increased imports of bananas which are an important food staple in this country would, moreover, make up for our smaller domestic fruit crop this year.

Tea imports have increased. Cocoa imports to date this year have been about 2½ times last year's level. Government cork reserves in this country, built up to an all-time peak since our occupation of North Africa, are to be reduced by one-third through sale to private industry. Government stock piles of some of the vegetable oils, such as coconut and palm kernel, previously taken over, are, as a result of enlarged imports, likewise to be resold in part to manufacturers, and the War Production Board is now of the opinion that rationing of soap can be avoided. Large purchases of burlap in India by the Defense Supply Corporation will in due course ease the demand for cotton bagging and make possible increases in production of other cotton goods.

In all these ways the distribution of Allied resources has improved, compared with the situation existing a year ago. Possibilities of further improvement are great. Australia and New Zealand, despite a severe labor shortage, could make additional contributions to the United Nations' pool of food and raw materials could the products be shipped. Pressure on our fat and protein supplies would be relieved if a more adequate use could be made of huge peanut and palm kernel crops of West Africa, linseed from Argentina, cottonseed and oil-bearing fruits from Brazil. As it is, West Africa and Brazil continue to use vegetable oils as Diesel fuel. Argentina has been burning first corn and more recently wheat and flaxseed in place of coal and petroleum. In contrast, in parts of Northern Brazil wheat flour is so scarce that it has to be rationed.

Shipping improvement also holds promise of some alleviation of the difficulties which Latin America, Africa, and India have been experiencing as a result of a sharp contraction of imports. In normal times Argentina, for example, imports about 1,500,000 tons of essential goods, excluding fuel, to maintain its industrial activity. In 1942 the actual tonnage of imported essentials declined to less than 700,000 tons.

The problem of supplies for Latin America and Africa is not one of shipping only. After the shipping bottleneck is relieved, the production bottleneck still remains, especially in industrial equipment and other durable goods; and war requirements will continue to determine what the United States and Great Britain can spare for overseas customers. However, some progress has been made. Export restrictions on non-critical articles in certain cases are being eased, and, according to a Washington report to the Journal of Commerce, goods destined for Latin America, which piled up on the docks while the shipping situation was bad, have already been cleaned up. Tonnage allocated on South American runs for August is reported to be about twice as large as last March. On the Caribbean runs shipping space for exports is now reported to be in excess of requirements. There is complaint that the machinery for export control has been too cumbersome and has retarded the outgoing movement of goods.

**Toward Better Distribution and Increased Production of Foodstuffs**

In addition to helping the war effort, improved distribution of foodstuffs and raw materials should also contribute materially to the easing of the post-war emergency. If surpluses, hitherto unsaleable because they could not be shipped, can soon be moved basic eco-

nomic problems of wide areas in Latin America, Africa, and Australia can be relieved. This is particularly true of the temperate zone of South America, one of the greatest surplus food and feed producing areas in the world, where lack of markets has led to depression and need for government relief in rural areas.

At the same time, increased shipping will immensely ease the task of rehabilitating liberated territories while the war is still going on, and also make possible the building of stock piles in preparation for supplying essential needs of the starving people of Central Europe once the war ends. The task of providing relief following the cessation of hostilities is expected to be incomparably greater than it was at the close of World War I. Probably from 60 to 75 per cent of Europe's 400 million people will need some sort of help, and with main producing areas devastated, food shortages in Russia will also have to be made up. The years of low food standards have resulted in widespread under-nourishment; fields in many parts of Europe have suffered from lack of proper care, and the numbers of both dairy cattle and draft animals have declined materially.

Yet, given favorable weather, the recuperative power of agricultural districts has been known to be remarkable. In North Africa the need for relief has proved to be smaller than had been anticipated, and a small surplus of cereals is indicated this summer.

The first objective, of course, must be to supply to the underfed masses on the Continent and in Russia, a sufficient quantity of high calory food, such as cereals and sugar, with which human energy can be maintained and hunger satisfied. Wheat bread and sugar were eagerly sought in North Africa and more recently in Sicily, as were also coffee and cocoa, —all staples which have been missing for years from the diets of Axis-controlled peoples. Considerable supplies of these staples are likely to be available immediately.

The second objective should be to provide the Continent with the right kinds of food or the means to produce them; dry legumes, soybeans, and as soon as possible dairy products, which are necessary for the protection of health. But the production of protective foods in sufficient quantities will require time.

According to ex-Governor Lehman, now heading the Office of Foreign Relief and Rehabilitation Operations, "at least 50 per cent, and perhaps more, of the total cereals required for European relief can readily come from areas other than the United States, and it should be noted that cereals comprise well over half of the total tonnage of any table of relief food shipments." Fortunately, owing to a series of excellent crops, the world output of the most needed cereal, wheat, has remained fairly high despite some curtailment of acreage. Canada, Argentina, and Australia are entering the new 1943-44 crop year with record-breaking carryovers, estimated to total almost 1¼ billion bushels or almost twice Europe's annual wheat import requirements during the 'thirties. In addition the 1943-44 crop will be available before long. While animal feeding during the present crop year threatens to eliminate the wheat carry-over in the United States, the drawing on the huge stocks of Canadian wheat and other cereals is likely to be limited by already overloaded Great Lakes and railroad transportation facilities. Hence the necessity for the restriction of animal feeding here, though the grain situation in Canada, Argentina, and Australia will continue to be marked by record supplies.

Provision for a sufficient supply of sugar, which fits in the food program also as preserver and conditioner of other foods, is important not only from the point of view of feeding the Continent of Europe and Russia, but also of supplementing the diet in the United States and Great Britain. The shortage of grain feeds may also force us to rely to a great extent on sugar cane molasses for the output of alcohol. With Javan and Philippine sugars eliminated for the time being, Latin American and Caribbean producers in particular will be called upon for increased supplies. Cuban production alone could be raised almost by 2,000,000 short tons, to some 5,000,000 tons, and other areas in the Caribbean, most of which have been laboring for three seasons under the shipping handicap, could also increase their output. Doubtless the 1944 crop allocations will be made with the shipping improvement and Europe's great need in mind.

Another important aspect of shipping improvement is the stimulus that it should give to the output of vegetable oils and concentrated protein feeds in Brazil, Argentina, and West Africa. The gap in the United Nations' supplies of fats, resulting from lack of access to the surpluses of Southeastern Asia, has not been quite overcome despite a huge increase in the United States output. Vegetable oils will also have to fill the gap in the animal fat supplies on the Continent, created by the slaughter of livestock, while vegetable seed cakes should aid in replenishing of livestock herds. Moreover, if the pre-war trends are to continue, requirements of inexpensive vegetable oils from the tropics are likely to expand materially. Such a development would also fit into a long-term program of providing increased supplies of protective foods for much of Europe, as outlined by the United Nations' Food Conference.

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